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[¶2. \(U\) The Japan Economic Scope \(JES\) is a weekly e-newsletter produced by Embassy Tokyo's ECON section in collaboration with other sections and constituent Posts and published every Friday. It provides a brief overview of recent economic developments, insights gleaned from contacts, summaries of the latest cables and a list of upcoming visitors. This cable contains the December 15, 2006, JES, minus the attachments that accompany many of the individual stories in the e-mail version. To be added to the e-mail list, please email ProgarJ@state.gov.](#)

[¶3. \(U\) Japan and Australia Agree to Begin Talks on Free Trade Agreement](#)  
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Prime Minister Shinzo Abe and his Australian counterpart, John Howard, agreed officially to enter

talks on a free trade agreement in a December 12 telephone call.

The decision follows release of a joint feasibility study pointing to the economic upside of inking a deal.

Japan hopes to acquire stable energy and mineral supplies from Australia with an FTA, while Australia looks to boost market access for its food and agriculture commodities (see Canberra 1984).

Chief Cabinet Secretary Shiozaki hailed the agreement for potentially strengthening "strategic ties between the two countries."

One GOJ official reportedly mentioned that negotiations with Australia are meant to serve as a case study for future agreements with the United States or China, which supply more agricultural products to Japan than Australia.

Most print media coverage of the announcement, apart from the Japan Agricultural News, an industry paper, was low key.

The general view is that negotiations will move slowly, with agricultural interest groups putting up a stiff defense.

The ruling Liberal Democratic Party's calculations reportedly show that the effect on Japan's farming districts would total about three trillion yen.

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A resolution passed by the Agriculture Committee in the Diet calls for negotiators to create exceptions on a number of sensitive items, including rice, beef, wheat, sugar and dairy products.

The resolution, supported by both the ruling and the opposition parties, says that if Australia balks at identifying a range of sensitive items Japan should halt the talks.

#### 4.(U) Hokkaido Farmers Protest Japan-Australian EPA Negotiations

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As the GOJ plans to begin negotiations with Australia on an economic partnership agreement (EPA), Hokkaido farmers are already mobilizing to oppose it.

On December 9, the Hokkaido Japan Agricultural Cooperatives Youth Group rallied at JR Sapporo Station to express their opposition to EPA negotiations and promote Hokkaido-produced agricultural products.

On December 11, members of the Hokkaido Farmers Federation held a "Dead Set Against Japan/Australia EPA Negotiations" rally in the central Hokkaido city of Obihiro. About 1,700 farmers from across Hokkaido gathered for loud demonstrations that received media coverage across the region.

Last week, the Hokkaido Prefectural Department of Agriculture announced that proposed tariff reductions on the prefecture's four major agricultural products (wheat, dairy products, sugar beets and beef) will result in the worst economic impact in recent memory. Officials claim Hokkaido's GDP will shrink by 4.2% (\$7 billion) and the unemployment rate will increase by 3.2 percentage point as 47,000 farmers will lose their jobs.

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During Indian Prime Minister Singh's December 13-16 visit to Japan, he and PM Abe will likely announce the start of negotiations toward an economic partnership agreement, according to government officials and press reports.

The EPA would be one of several measures designed to improve Japanese-Indian political, economic, cultural, and international diplomatic cooperation. See Tokyo 6926 for details.

¶6. (SBU) Sec. Bodman, METI Minister Amari Agree to Cooperate on Energy Security  
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Energy Secretary Samuel Bodman met with Minister of Economy, Trade and Industry Akira Amari on December 12 to discuss energy security in Northeast Asia prior to the Beijing Energy Ministerial in Beijing on December ¶16.

Amari emphasized the importance of diversifying resources with particular emphasis on nuclear energy. He noted existing U.S.-Japan cooperation in the Global Nuclear Energy Partnership (GNEP) and said he hoped to see U.S.-Japan cooperation on the construction of new nuclear power plants in the United States.

Amari also raised the need to improve the investment environment in energy-producing countries as well as the need to improve world-wide energy efficiency and emergency measures during energy crises.

Bodman welcomed Amari's call for joint cooperation in energy security and suggested that the Beijing meeting would be an excellent venue for engaging China and

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India.

He also praised Japan's world class energy saving efforts and called for Japan to lead the rest of the world in improving energy efficiency.

¶7. (SBU) IEA Selects Tanaka as Next Executive Director  
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The Governing Board of the International Energy Agency (IEA) in a meeting in Sydney, Australia, announced the selection of Nobuo Tanaka as the next Executive Director of the Agency.

He will succeed Frenchman Claude Mandil who completes his term in August 2007.

Tanaka joined the Ministry of Economy, Trade and Industry (METI) during the first oil crisis in 1973 with an economics degree from the University of Tokyo and an MBA from Case Western Reserve University in Cleveland, Ohio.

His first assignment was to the Ministry's petroleum office.

Since then he has served in the Japanese Embassy in Washington and at the Paris-based Organization of Economic Cooperation and Development (OECD) as well as throughout METI and the Agency for Natural Resources and Energy (ANRE).

Currently, Tanaka is OECD Director for Science, Technology and Industry.

¶8. (U) 2007 Tax Code Revisions Hammered Out

The ruling coalition unfurled their 2007 tax code revisions on December 14.

Highlights include reductions in the corporate tax burden by allowing 100 percent depreciation of capital investments (from 95 percent), which will not only lead to a 450 billion yen tax cut in 2007, but also support the Abe administration's growth strategy.

On the other hand, if last year's estimated one trillion yen derived from the fixed-rate cut in income tax is taken into account, taxes for the next fiscal year will be increased, on balance.

Consumption tax increases, and the effective tax rate levied on firms was put off for another year.

¶9. (U) Diet Cuts Cap on Consumer Loan Rate & Creates Designated Credit Bureau

On December 13, the Diet enacted a controversial bill revising the Money Lending Business (MLB) Law.

The bill lowers the maximum allowable interest charge on uncollateralized consumer loans, and introduces a legal limit on the total amount of consumer loans that individuals can borrow from moneylenders.

The bill also calls on the establishment of a designated credit bureau(s) to share credit information among moneylenders.

It also contains a clause requiring the government to review the status of lending rates and business conditions of moneylenders, within 30 months after the revised Law takes effect. Please see attached for further details.

¶10. (SBU) Miyazaki Bid-rigging Scandal: Has the Scale Tipped?

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On December 8, Miyazaki Governor Tadahiro Ando became the third Japanese governor to be arrested on bid-rigging charges in recent months.

Although southern Japan's Miyazaki prefecture ranks first nationwide in the ratio of winning bid-to-estimated contract price, a typical indicator of bid-rigging, some legal experts estimate that about 80-85% of all local Japanese public works projects may involve some form of collusive bidding.

Furthermore, there are presently few disincentives to persuade people from engaging in the activity. Nevertheless, given current calls for fundamental reforms in various key sectors of the Japanese economy and the high profile arrests, there is some hope that the Japanese public will become increasingly intolerant of bid-rigging, especially those cases involving senior elected officials. See Fukuoka 0070 for more details.

¶11. (U) ACCJ Healthcare Services Sub-Committee Meets to Discuss Priorities

The ACCJ Healthcare Services Sub-Committee met on December 11 to outline priorities for the coming year. Sub-committee chair Barry Louie expressed willingness to make a presentation to the Regulation Reform healthcare working group as he did last year.

Louie also distributed data comparing Japan's spending on healthcare compared to other countries, something which had been requested by Kiyoshi Kurokawa, a healthcare expert and adviser to Prime Minister Abe who has been asked to improve Japanese competitiveness in the sector.

The sub-committee also discussed re-issuing its Viewpoint paper on healthcare after widening its focus.

**¶12. (SBU) Ford Japan; Yen-Dollar Exchange Rate Not Raised Here**

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ECONOFF and ECONFSN met with Ford Japan's Chairman, Katsuhiko Satoh, and President and CEO, Randy Krieger, this week to complete our discussions with U.S. automakers in Japan about the Big Three automakers' complaints to the President last month over the undervalued yen.

Ford here, like GM and Chrysler, is not making an issue of the yen-dollar exchange rate.

Mr. Krieger noted the appreciation of the Euro, however, affects the imports to Japan from Ford's European production facilities. (For our GM and Chrysler meetings see: JES Volume 2 Issue #47 December 1, 2006) Unlike GM and Chrysler, Ford sells a range of autos in Japan, including economy models, imported from plants in Taiwan and Europe. Ford sells about 5,000-6,000 units a year.

Ford's main concern is how to meet Japanese pedestrian safety, emissions, and fuel economy standards. Krieger noted that Japan and Europe have similar standards and China is going in the direction of Japan and Europe.

U.S. standards are weaker and this places the exports of U.S.-made cars to Japan at a competitive disadvantage; Ford will probably rely on its European production for exports to Japan.

(The Nihon Keizai Shimbun reports this week that the GOJ plans to call for automakers to improve the fuel efficiency of their vehicles by about 20% by 2015, giving Japan the world's strictest fuel efficiency

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regulations.)

In regards to pedestrian safety standards, Ford is trying to meet the Japanese requirements, but is seeking more time from the GOJ to introduce the necessary design changes.

**¶13. (U) New Haneda Airport Runway Plan Likely to be Delayed**

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Construction of Haneda airport's fourth runway is now unlikely to start before the end of the year, according to the Yomiuri Shimbun, because the negotiations with local fishermen's associations have not been completed. The Yomiuri says the delay will push back the projected in service date from the end of 2009 to at least May 2010 as construction is expected to take some 35 months followed by about six months of equipment and runway checks.

A Japan Civil Aviation Bureau official told ECONFSN that their ministry, the Ministry of Land, Infrastructure and Transportation (MLIT), has not officially announced the delay and still maintains that the ministry will try its best to pursue the project according to the

timeline, but also said that there is no specific expected date for when the construction will start.

¶14. (SBU) ANA Sells Domestic Hotels to Solidify Lead Over JAL  
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The press reported this week that ANA is moving to concentrate on its core aviation business and planning to sell its domestic hotels to raise money to buy the next generation of fuel efficient aircraft and further strengthen its lead over struggling JAL in the domestic market (See Nikkei story attached).

The move will also help ANA to take advantage of the new slots that will be available when Haneda and Narita airport expansion are completed. For example, ANA plans to add a Narita-Delhi route using a latest generation Boeing 737 outfitted with business class seating throughout the plane.

A transport industry executive confirmed to EMIN this week that JAL is in a desperate situation and ANA sees an opportunity to go for the juggler.

¶15. (SBU) Civil Aviation: Japanese Reservations about EU Emission Trading Scheme  
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The GOJ has concerns about the European Commission's proposal for including aircraft emissions in the EU Emissions Trading Scheme, MOFA Climate Change officials told us on December 11.

The GOJ will try to finalize its position before the end of the year in time for PM Abe's scheduled trip to Europe in the first part of January. For more information please see: Tokyo 6955

¶16. (U) BOJ December "Tankan" Survey -- Slight Improvement in Business Sentiment  
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The Bank of Japan's quarterly "tankan" survey of business sentiment, a closely watched business circle indicator and a principal input in central bank's monetary policy deliberations, revealed a slight improvement in business sentiment among almost all categories -larger, mid-sized and small firms.

The survey's "headline" business sentiment diffusion index (DI) for large manufacturers was in line with market expectations, while that for non-manufacturers

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was a bid stronger than expected.

The December survey also revealed that all enterprises on average revised modestly upward their FY06 projections of business investment from the September survey.

These firm survey results are likely to underpin the BOJ's policy adjustment to raise interest rates soon. The BOJ Policy Board is scheduled to hold its first post-"tankan" meeting on December 18/19. Please see attached for more details.

¶17. (U) Red Sox Land Matsuzaka; New Dynasty Emerging in Boston  
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The deal got done. The Saitama economy is set to get a boost and Japan's tax collectors an estimated \$20 million dollars after Daisuke Matsuzaka, the Seibu Lions ace, agreed to terms with the Boston Red Sox on December

He is the final link in what Kyodo news service reported could become the finest starting rotation in baseball, joining Curt Shilling, Josh Beckett, Jonathan Papelbon, and Jon Lester.

All have Cy Young Award-caliber arms. With the addition of right fielder J.D. Drew and shortstop Julio Lugo, the Red Sox are beginning to look like a dynasty in the making -- not of the meek, Bill Belichick, three championships in four years variety, but of the Bill Russell, Boston Celtics, 11 championships in 13 years type.

The Red Sox are tapping into the Japanese market in a big way. The story has splashed prominently in all the key Japanese newspapers (Click for Mainichi English coverage). Matsuzaka's introductory Fenway Park press conference was carried live on Japanese TV. The right hander's signing comes two weeks after former Hokkaido Ham Fighter Hideki Okajima also inked a contract with the Red Sox. A third Japanese pitcher is rumored to be close to a deal.

Why Boston? Some insight may come from what New York Yankee left fielder Hideki Matsui said when he visited the Embassy earlier this year.

Asked by Japanese reporters what his favorite American city was, he said Boston -- and pointed to the vibrant university town atmosphere and the deep history.

He had little, if anything, to say about New York. Nor did he have any comment about the Yankees controversial ownership.

SCHIEFFER